



B.K. BIRLA CENTRE FOR EDUCATION

SARALA BIRLA GROUP OF SCHOOLS
A CBSE DAY-CUM-BOYS' RESIDENTIAL SCHOOL

TERM-1 EXAMINATION 2025-26 FINANCIAL MARKET MANAGEMENT (805) MS

CLASS: XI
DATE: 3/09/2025
NAME:

MARKING SCHEME

DURATION: 3 Hrs.
MAX. MARKS: 50
EXAM NO: -----

SECTION-A 1X10=10

Q1. Which of the following is NOT a function of the primary market?

- a) Issuing new shares to the public
- b) Facilitating trading of existing securities**
- c) Underwriting of securities
- d) Pricing of securities

Q2. The secondary market is also known as:

- a) New Issue Market
- b) Over-the-Counter Market
- c) Stock Exchange**
- d) Primary Market

Q3. Which instrument represents ownership in a company?

- a) Debenture
- b) Bond
- c) Equity Share**
- d) Treasury Bill

Q4. In which market are securities first offered to the public?

- a) Derivatives Market
- b) Primary Market**
- c) Secondary Market
- d) Commodity Market

Q5. Which of the following is NOT a type of security?

- a) Government Bond
- b) Equity Share
- c) Mutual Fund Unit
- d) Fixed Deposit in Bank**

Q6. **Assertion (A):** Equity shareholders are the real owners of a company.

Reason (R): They receive fixed interest from the company.

- a) Both A and R are true, and R is the correct explanation of A
- b) Both A and R are true, but R is not the correct explanation of A
- c) A is true, but R is false**
- d) A is false, but R is true

Q7. Which of the following is NOT a financial market?

- a) Capital Market
- b) Money Market
- c) Commodity Market
- d) Shopping Mall**

Q8. **Assertion (A):** Financial markets act as a link between savers and investors.

Reason (R): They facilitate the flow of funds from surplus units to deficit units.

- a) Both A and R are true, and R is the correct explanation of A.
- b) Both A and R are true, but R is not the correct explanation of A.

c) A is true, but R is false.

d) A is false, but R is true.

Q9. Assertion (A): Securities are tradable financial assets that can represent ownership or debt.

Reason (R): Equity shares and debentures are examples of securities.

a) Both A and R are true, and R is the correct explanation of A.

b) Both A and R are true, but R is not the correct explanation of A.

c) A is true, but R is false.

d) A is false, but R is true.

Q10. Assertion (A): The secondary market is also called the new issue market.

Reason (R): It deals with securities that are already issued and listed for trading.

a) Both A and R are true, and R is the correct explanation of A.

b) Both A and R are true, but R is not the correct explanation of A.

c) A is true, but R is false.

d) A is false, but R is true.

SECTION-B 3X8=24

Q11. Explain any three differences between the primary market and the secondary market.

Ans. 1. The primary market is where new securities are issued for the first time by companies to raise funds. The secondary market is where already issued securities are bought and sold among investors.

2. In the primary market, the main participants are the issuing company and the investors. In the secondary market, trading takes place only between investors; the company is not directly involved.

3. The primary market helps companies raise fresh capital, whereas the secondary market provides liquidity to investors by allowing them to sell their securities anytime.

Q12. What is meant by securities? Give two examples.

Ans. Securities are financial instruments that represent either ownership in a company (like shares) or a creditor relationship with a government or corporation (like bonds). They can be traded in financial markets and have a monetary value.

Examples:

1. Equity Shares – Represent ownership in a company.

2. Government Bonds – Represent a loan made to the government with a promise of repayment and interest.

Q13. Define IPO and mention two features of it.

Ans. IPO (Initial Public Offering) is the process through which a company offers its shares to the public for the first time in the primary market to raise capital.

Two features:

1. First-time issue – It is the company's first public sale of shares.

2. Raising fresh capital – Helps the company gather funds for expansion, debt repayment, or other purposes.

Q14. State any three functions of a secondary market.

Ans. 1. Provides Liquidity – It allows investors to easily buy and sell securities, turning them into cash whenever needed.

2. Price Determination – Prices of securities are determined through demand and supply forces in the market.

3. Promotes Investment – By offering an easy exit route, it encourages more people to invest in securities in the first place.

Q15. Define the term financial market and write its main functions.

Ans. Financial Market refers to a marketplace where buyers and sellers trade financial instruments such as shares, bonds, debentures, and other securities. It acts as a link between those who have surplus funds (savers) and those who need funds (borrowers or investors).

Main functions of a financial market:

1. Mobilisation of Savings – Channels surplus funds from households and other sectors to productive uses.

2. Facilitating Fund Flow – Transfers funds from surplus units to deficit units, promoting investment.

3. Price Discovery – Helps in determining the prices of securities based on demand and supply.
4. Liquidity Provision – Makes it easy to convert securities into cash.
5. Reducing Transaction Costs – Provides a common platform that lowers the cost and time of trading.

Q16. As an investor, how would you apply the golden rule to make smart financial decisions and minimize risks?

Ans. 1. Diversify Your Investments – Spread your money across different asset classes (shares, bonds, real estate, mutual funds, etc.) so that a loss in one does not wipe out all your gains.

2. Research Before Investing – Study the company, market trends, and economic conditions before putting your money in. Avoid investing blindly based on tips or rumors.

3. Set Clear Goals and Risk Limits – Decide whether your aim is long-term growth, regular income, or capital safety, and choose investments accordingly.

4. Avoid Emotional Decisions – Stick to your strategy instead of reacting impulsively to market ups and downs.

5. Review and Adjust Regularly – Keep track of your portfolio's performance and rebalance it if one type of investment becomes too dominant or risky.

Q17. Which factors determine the interest rate?

Ans. 1. Demand and Supply of Money – When the demand for loans is high and the supply of money is limited, interest rates tend to rise, and vice versa.

2. Inflation Rate – Higher inflation usually leads to higher interest rates, as lenders want compensation for the reduced purchasing power of money.

3. Monetary Policy of the Central Bank – Policies like repo rate and cash reserve ratio set by the Reserve Bank of India (RBI) directly impact interest rates.

4. Government Borrowing – Large-scale borrowing by the government can push interest rates up by increasing demand for funds.

5. Credit Risk – Borrowers with higher default risk are charged higher interest rates to compensate for the risk taken by lenders.

6. Economic Growth – In a fast-growing economy, higher demand for funds can push interest rates up.

Q18. Ravi has recently started earning a salary of ₹30,000 per month. After meeting his monthly expenses, he is left with ₹8,000 as savings. He is confused about whether to keep the money in a savings account or invest it in financial instruments. His friend advises him to invest for better returns and future security. Based on the above situation, explain why there is a need for investment.

Ans. 1. Wealth Creation – By investing his ₹8,000 savings in financial instruments like mutual funds, shares, or bonds, Ravi can grow his money over time through returns and capital appreciation.

2. Beating Inflation – A savings account offers low interest, often less than inflation. Investments can provide higher returns, helping Ravi maintain and increase his purchasing power.

3. Future Security – Investing regularly will help Ravi build a financial cushion for emergencies, retirement, or big life goals like buying a house or funding children's education.

4. Generating Additional Income – Some investments (like dividend-paying stocks or bonds) can give Ravi extra income alongside his salary.

5. Achieving Financial Goals – Whether it's a car, a vacation, or early retirement, investments help turn goals into reality faster than simple bank savings.

SECTION-C 4X2=08

Q19. Read the passage given below carefully and answer the questions that follow:

XYZ Ltd. needs ₹50 lakh for expansion and decides to issue shares to the public for long-term funding. Meanwhile, the company also wants to invest its surplus cash for 3 months to earn some short-term returns with safety.

Questions:

1. Which market will XYZ Ltd. approach for raising long-term funds? 1

Ans. 1. The capital market deals with instruments like equity shares, preference shares, and debentures, which are used to raise funds for more than one year.

2. For its surplus cash investment for 3 months, the company would use the money market, which handles short-term funds and safe instruments like Treasury Bills or Commercial Paper.

2. Which market will it approach for investing surplus cash for 3 months? 1

Ans. 1. The money market deals with short-term funds (maturity less than one year).

2. Suitable instruments for XYZ Ltd. could include Treasury Bills, Commercial Papers, or Certificates of Deposit, which are safe and provide quick liquidity.

3. Name one suitable instrument for short-term investment in that market. 1

Ans. One suitable instrument for short-term investment in the money market is a Treasury Bill (T-Bill).

4. State any one difference between the two markets mentioned above. 1

Ans. Capital Market deals with long-term funds (maturity period more than one year), whereas Money Market deals with short-term funds (maturity period less than one year).

Q20. Read the passage given below carefully and answer the questions that follow:

ABC Ltd. is planning to raise ₹100 crores for expansion. The company decides to issue new shares to the public through an online platform. Once the shares are sold, they will be listed on the National Stock Exchange (NSE) so that investors can buy and sell them freely.

Questions:

1. Which market is ABC Ltd. approaching to issue shares for the first time? 1

Ans. ABC Ltd. is approaching the Primary Market to issue shares for the first time.

The primary market is where companies offer new securities to the public to raise fresh capital.

2. Name the process of issuing shares to the public for the first time. 1

Ans. The process of issuing shares to the public for the first time is called an Initial Public Offering (IPO).

3. Once listed, in which market will the trading take place? 1

Ans. Once listed, the trading of shares will take place in the Secondary Market, where investors buy and sell already issued securities through stock exchanges.

4. Mention any two functions of that market. 1

Ans. 1. Provides Liquidity – Investors can easily sell their securities and convert them into cash.

2. Price Determination – The prices of securities are determined by demand and supply forces in the market.

SECTION-D 4X2=8

Q21. An investor must take care of certain aspects before investing. Mention these precautions.

Ans. 1. Assess Risk Capacity – Understand your own risk tolerance before choosing an investment.

2. Research the Investment – Study the company's background, performance, and market conditions.

3. Diversify Portfolio – Spread investments across different assets to reduce risk.

4. Check Liquidity – Ensure the investment can be converted into cash when needed.

5. Be Aware of Scams – Avoid schemes that promise unrealistic or guaranteed high returns.

Q22. How would you use different instruments to control markets and finance in order to maintain economic stability? Explain their roles with examples.

Ans. 1. Monetary Policy Instruments (Used by the Central Bank – RBI in India)

These control the supply of money and interest rates to manage inflation, growth, and stability.

- Repo Rate & Reverse Repo Rate –

Role: By increasing the repo rate, RBI makes borrowing costlier, reducing money supply and controlling inflation. Lowering it encourages borrowing and investment during slow growth.

Example: In 2020, RBI reduced the repo rate to boost economic activity during the COVID slowdown.

- Cash Reserve Ratio (CRR) –

Role: A higher CRR means banks must keep more cash with RBI, reducing lending capacity; lower CRR increases lending.

Example: Increasing CRR during inflation to reduce excess liquidity.

- Open Market Operations (OMO) –

Role: Buying government securities injects liquidity; selling them absorbs liquidity.

Example: RBI selling bonds to reduce excess money in the market.

2. Fiscal Policy Instruments (Used by the Government)

These involve taxation and spending to influence the economy.

- Government Spending –
Role: Increasing spending on infrastructure or welfare boosts demand and employment; cutting spending reduces inflationary pressure.
Example: Road and housing projects to create jobs during a slowdown.
- Taxation –
Role: Lower taxes increase disposable income and spending; higher taxes reduce demand and help control inflation.
Example: Temporary GST rate cuts on certain goods to encourage consumption.

3. Financial Market Instruments

These help regulate investment flows and maintain stability.

- Treasury Bills (T-Bills) –
Role: Short-term borrowing by the government to manage liquidity.
- Government Bonds –
Role: Long-term borrowing to finance development without immediate inflationary effects.
